

Message Text

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ORIGIN NEA-10

INFO OCT-01 EUR-12 ISO-00 EB-08 SIG-01 SOE-02 AID-05
CEA-01 CIAE-00 COME-00 DODE-00 DOE-11 H-01 INR-10
INT-05 L-03 NSAE-00 OMB-01 PM-05 OES-07 SP-02
SS-15 STR-07 TRSE-00 ACDA-12 OPIC-03 NSCE-00
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FM SECSTATE WASHDC
TO AMEMBASSY ABU DHABI IMMEDIATE
AMEMBASSY TEHRAN IMMEDIATE
INFO AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY MANAMA
AMEMBASSY DOHA
AMEMBASSY MUSCAT
AMEMBASSY LONDON

C O N F I D E N T I A L STATE 044034

E.O. 11652: GDS

TAGS: ENRG, TC, IR

SUBJECT: TAX AND ROYALTY PROBLEM FOR CRESCENT PETROLEUM

REF: ABU DHABI 443 AND 419

1. BORETA OF BUTTES AND SHARJAH/BUTTES LEGAL ADVISOR ELY
HAVE BEEN IN TOUCH WITH DEPARTMENT, OUTLINING SITUATION
ALONG LINES EXPLAINED ABU DHABI 443. BORETA STRESSED
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THAT CRESCENT COULD RECOVER ITS INVESTMENT UNDER LATEST
TERMS OFFERED BY SHARJAH, BUT ONLY IF THERE WERE NO
RETROACTIVE PAYMENTS. HE CONTENDED THAT FACED WITH
RETROACTIVITY CRESCENT WOULD HAVE NO ALTERNATIVE TO CEASING
OPERATIONS AND SEEKING ARBITRATION. BORETA AND ELY NOTED
THAT THIS EVENTUALLY WOULD BE HARMFUL TO SHARJAH'S WORSEN-
ING ECONOMIC SITUATION, AND, IF IT INVOLVED NIOC'S

TAKING OVER CONCESSION WOULD HAVE SERIOUS POLITICAL REPERCUSSIONS VIS A VIS ARAB-IRANIAN RELATIONS.

2. DEPARTMENT VIEWS THIS PROBLEM WITH CONSIDERABLE CONCERN SINCE HARMONIOUS IMPLEMENTATION OF IRANIAN-SHARJAH AGREEMENT ON ABU MUSA (WHICH TO OUR KNOWLEDGE UAE HAS NOT ACKNOWLEDGED), IS IMPORTANT IN OUR VIEW TO ATMOSPHERE OF COOPERATION IN GULF. ADDRESSEES WILL RECALL THAT ABU MUSA AGREEMENT WAS HARD WON; CONTROVERSIAL TO POINT OF CONTRIBUTING TO ASSASSINATION OF THE SHARJAH RULER WHO MADE IT, IT

HAS ONLY OVER TIME CEASED TO BE A POINT OF ATTACK BY ARAB NATIONLIST ELEMENTS. NEVERTHELESS, IT HAS BEEN A POSITIVE CONTRAST TO THE IRANIAN OCCUPATION OF THE TUNBS, WHICH INTER ALIA LED TO IRAQ'S BREAKING RELATIONS WITH UK AND LIBYAN NATIONALIZATION OF BRITISH PETROLEUM. IN DEPARTMENT'S VIEW PRESENCE OF SHARJAH CONCESSIONAIRE

IN ABU MUSA OIL ACTIVITY IS A MANIFESTATION OF CONTINUING SHARJAH CIVIL ADMINISTRATION OF ISLAND, AND NIOC TAKEOVER OF CONCESSION WOULD HAVE BEEN HARD TO EXPLAIN ON ARAB SIDE OF GULF.

4. FOR ABU DHABI: AMBASSADOR DICKMAN IS AUTHORIZED TO RAISE THE PROBLEM IN SHARJAH, AND AT HIS DISCRETION WITH FEDERAL GOVERNMENT, MAKING FOLLOWING POINTS:
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--USG HAS WELCOMED PARTICIPATION OF US FIRMS IN SHARJAH PETROLEUM DEVELOPMENT AS EXAMPLE OF US-UAE ECONOMIC COOPERATION, AND HOPES SUCH COOPERATION WILL CONTINUE.

-- WE UNDERSTAND THAT BOTH CRESCENT AND SHARJAH ARE IN AGREEMENT THAT PRESENT FISCAL TERMS OF CONCESSION MIGHT BE MODIFIED TO REFLECT MORE CLOSELY TERMS PREVAILING IN MAJOR CONCESSIONS IN THE AREA.

--WE NOTE, HOWEVER, THAT IN CASES OF SMALLER CONCESSIONS IN AREA, PRODUCER GOVERNMENTS HAVE GENERALLY TAKEN FLEXIBLE APPROACH IN APPLYING CURRENT OPEC TERMS, RECOGNIZING THE PRACTICAL NEED TO PERMIT CONCESSIONS TO CONTINUE OPERATION ON FINANCIALLY ACCEPTABLE TERMS.

--WHILE USG IS TAKING NO POSITION ON WHAT SPECIFIC FISCAL TERMS SHOULD BE WORKED OUT, WE WOULD HOPE THAT ALL PARTIES COULD COME TO A SOLUTION PERMITTING CONTINUED CRESCENT OPERATION OF THE CONCESSION.

--WE BELIEVE SHARJAH WOULD AGREE IT IS IN NO ONE'S

INTEREST TO CREATE A SITUATION IN WHICH SHARJAH CONCESSIONAIRE WOULD FEEL OBLIGED TO CEASE OPERATIONS AND SEEK REMEDIES PROVIDED UNDER CONCESSION AGREEMENT. (FYI ARBITRATION END FYI).

5. FOR TEHRAN: GIVEN POLITICAL SIGNIFICANCE OF ABU MUSA ARRANGEMENT AND FACT THAT BOTH SHAH AND PRESENT PRIME MINISTER WERE ACTIVELY ENGAGED IN REACHING IT, WE ARE PUZZLED THAT GOI WOULD PERMIT NIOC TO PRESS FOR RELATIVELY INSIGNIFICANT FINANCIAL BENEFITS TO POINT OF THREATENING

ARRANGEMENT WHICH HAS SERVED CAUSE OF GULF COOPERATION. EMBASSY MAY WISH TO BRIEF GOI ON APPROACH AMBASSADOR DICKMAN IS MAKING IN UAE, NOTING IN LOW KEY OUR CONCERNS
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ABOUT PROTECTION OF VALID INTERESTS OF US FIRMS AS WELL AS POSSIBLE POLITICAL IMPLICATIONS OF BREAKDOWN IN PRESENT PETROLEUM ARRANGEMENTS ON ABU MUSA. VANCE

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